

**GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS**

**COMPONENT UNIT
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1989**

GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS

2815 West Washington Street
P.O. Box 19255 Springfield, Illinois 62794 • 9255

Prepared by the
Accounting Division

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Introductory Section

Letter of Transmittal

Administration, Board of Trustees and Administrative Staff



STATE
RETIREMENT
SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges Retirement System of Illinois

2815 WEST WASHINGTON, P.O. BOX 19255, SPRINGFIELD, IL 62794-9255, PH. (217) 753-0444

The Board of Trustees and Members
General Assembly Retirement System,
State of Illinois
Springfield, IL 62794

November 30, 1989

Dear Board of Trustees and Members:

The component unit annual financial report of the General Assembly Retirement System (System) for the fiscal year ended June 30, 1989 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the required supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Although the General Assembly Retirement System, State Employees' Retirement System and Judges' Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the General Assembly Retirement System do not include balance sheet information nor the results of operations of the State Employees' Retirement System or Judges' Retirement System.

REVENUES

Collection of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled \$5,422.4 thousand during the fiscal year ending June 30, 1989, representing an increase of \$722.9 thousand from revenue reported for fiscal year 1988, shown as follows:

	1989 (Thousands)	1988 (Thousands)	Increase/(Decrease) (Thousands)	(Percentage)
Contributions:				
Participants	\$ 869.6	\$ 796.4	\$ 73.2	9.2%
State of Illinois	1,997.5	1,970.0	27.5	1.4%
Investments	2,555.3	1,933.1	622.2	32.2%
Total Revenue	<u>\$5,422.4</u>	<u>\$4,699.5</u>	<u>\$722.9</u>	<u>15.4%</u>

As indicated in the total above, a substantial portion of the total revenue is derived from investment income, including the realization of substantial gains on the sales of investments, during fiscal year 1989.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1989 and 1988 are shown for comparison purposes.

	1989 (Thousands)	1988 (Thousands)	Increase/(Decrease) (Thousands) (Percentage)	
Benefits:				
Retirement annuities	\$2,652.0	\$2,681.6	\$(29.6)	(1.1)%
Survivors' annuities	636.0	587.1	48.9	8.3%
Automatic annuity increase	394.4	349.4	45.0	12.9%
Total Benefits expenses	\$3,682.4	\$3,618.1	\$ 64.3	1.8%
Refunds	55.6	16.7	38.9	232.9%
Administrative expenses	113.3	99.2	14.1	14.2%
Total Expenses	<u>\$3,851.3</u>	<u>\$3,734.0</u>	<u>\$117.3</u>	<u>3.1%</u>

INVESTMENTS

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. Net investment income, combined with a net realized gain on the sale of investments, amounted to \$2,555,317 during fiscal year 1989, an increase of \$622,219 from fiscal year 1988. This reflects the general upward trend in the financial markets during the last fiscal year. Income from investments represents 47.1% of total fund revenue.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1989, amounted to \$62.8 million. The fund balances for participant contributions, automatic annuity increases and future operations amounted to \$31.7 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits". The unfunded present value of credited projected benefits amounts to \$31.1 million and reflects the continuing state policy of appropriating funds based upon a percentage of the total amount of benefit payments made to current recipients. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

The state's policy on pension funding has been based on variations of the pay-as-you-go approach. From fiscal year 1973 through fiscal year 1981, the state's contribution was approximately equal to 100% of payout (the dollar amount expected to be paid out in benefits each year).

Beginning in fiscal year 1982, however, state appropriations have been less than 100% of payout. In fiscal year 1982, the appropriation fell to 62.5% of payout, while in fiscal year 1983 the appropriation declined to just over 50% of payout. These reductions were due in large part to the state's poor fiscal condition. From fiscal year 1984 to fiscal year 1987, the state's appropriation was approximately 60% of payout. The fiscal year 1988 regular contribution was approximately 48% of payout, and approximately 44% for fiscal year 1989.

Financing the retirement benefits that are being earned is one of the most important issues facing the General Assembly Retirement System. Over the years, a number of organizations have stressed the need for sound funding of the System. Considerable progress was made toward this end when, in August, 1989, Governor Thompson signed Senate Bill 95 into law. This Bill provides for the increased funding of the unfunded actuarial liability. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven-year phase in period was included in the legislation. The seven-year phase in period will be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40-year period.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the ultimate responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

MAJOR INITIATIVES

The oversight responsibility for the daily operations of the General Assembly Retirement System has been merged with that of the State Employees' Retirement System and the Judges' Retirement System. The merger of these operations is intended to avoid duplication of computer equipment, computer programmers, professional staff, and other technical staff while maintaining a high level of service to participants, annuitants, and beneficiaries. The ultimate control of the General Assembly Retirement System shall remain vested with the General Assembly Retirement System Board of Trustees.

Plans for FY 1990 include the publishing of a participant handbook, as well as an annual newsletter. In addition, a procedures manual will be developed for the staff of the System to standardize procedures and serve as a training tool.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the General Assembly Retirement System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The General Assembly Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operations of the System. Actuarial services are provided by S. Goldstein & Associates, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of Arthur Andersen & Co. under the direction of the Auditor General of the State of Illinois. The System's investment function is managed by the Illinois State Board of Investment.

ADDITIONAL COMMENTS

In August, 1989, Norman E. Lentz, long time Executive Secretary of the System, retired. In addition,

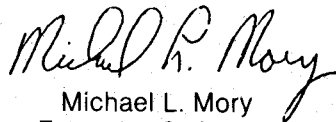
M. D. Corrigan, employee of the System for many years and most recently Division Manager, retired effective November 1, 1989. All of the Board Members and Staff extend their gratitude to Mr. Lentz and Mr. Corrigan for their leadership and devotion during their many years of service.

ACKNOWLEDGEMENTS

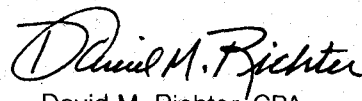
The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois.

On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to assure the successful operation of the System.

Respectfully submitted,



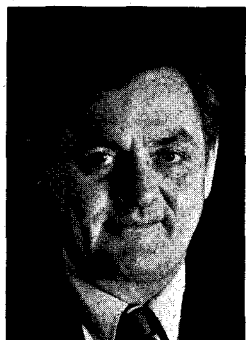
Michael L. Mory
Executive Secretary



David M. Richter, CPA
Accounting Division

GENERAL ASSEMBLY RETIREMENT SYSTEM

BOARD OF TRUSTEES



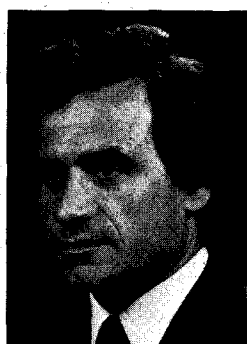
SENATOR
PHILIP J. ROCK
Chairman



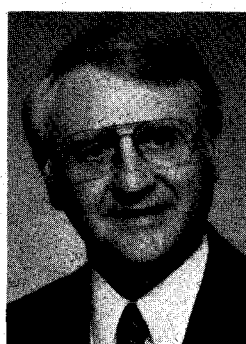
REPRESENTATIVE
GENE L. HOFFMAN
Vice Chairman



ANNUITANT
JOHN MERLO
Secretary



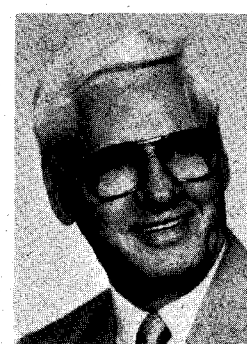
SENATOR
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SENATOR
CALVIN W. SCHUNEMAN



REPRESENTATIVE
ROBERT M. TERZICH



REPRESENTATIVE
SAM W. WOLF

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Executive Secretary

ROBERT V. KNOX
Associate Executive Secretary

RUDY J. KINK
Division Manager

CHERYL S. BULLERMAN

CAROLE R. McKEAN

DAVID M. RICHTER

BEVERLY A. WELLS



Financial Section

Independent Auditors' Report

Financial Statements

Required Supplementary Information

Supplementary Financial Information

Additional Financial Information

ARTHUR ANDERSEN & Co.

CHICAGO, ILLINOIS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
General Assembly Retirement
System--State of Illinois

We have audited, as Special Assistant Auditors for the Auditor General, the accompanying balance sheets of the GENERAL ASSEMBLY RETIREMENT SYSTEM--STATE OF ILLINOIS as of June 30, 1989 and 1988, and the related statements of revenue, expenses and changes in fund balance and changes in financial position for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Assembly Retirement System--State of Illinois as of June 30, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of supplementary financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


ARTHUR ANDERSEN & CO.

October 20, 1989

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Balance Sheets • June 30, 1989 and 1988

Assets	1989	1988
Cash	\$ 348,265	\$ 494,346
Receivables:		
Participants' contributions	\$ 65,742	\$ 8,157
Refundable annuities	6,791	7,582
Interest on cash balances	4,158	3,889
	<u>\$ 76,691</u>	<u>\$ 19,628</u>
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1989, \$34,742,711 1988, \$31,109,570) (Note 3)	\$ 31,290,392	\$ 29,620,883
Equipment, net of accumulated depreciation (Note 8)	13,532	14,596
Total Assets	<u>\$ 31,728,880</u>	<u>\$ 30,149,453</u>
Liabilities and Fund Balance		
Administrative expenses payable (Note 7)	\$ 21,298	\$ 18,760
Due to Judges' Retirement System of Illinois	30,076	24,307
Total Liabilities	<u>\$ 51,374</u>	<u>\$ 43,067</u>
Fund Balance		
Actuarial present value of credited projected benefits (Note 5)	\$ 62,834,957	\$ 64,160,481
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(31,157,451)	(34,054,095)
Total Fund Balance (Note 10)	<u>\$ 31,677,506</u>	<u>\$ 30,106,386</u>
Total Liabilities and Fund Balance	<u>\$ 31,728,880</u>	<u>\$ 30,149,453</u>
See accompanying notes to financial statements.		

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance Years ended June 30, 1989 and 1988

	1989	1988
Revenue:		
Contributions:		
Participants	\$ 869,635	\$ 796,393
State of Illinois	<u>1,997,500</u>	<u>1,970,000</u>
Total Contributions revenue	<u>\$ 2,867,135</u>	<u>\$ 2,766,393</u>
Investments:		
Net investments income	\$ 1,792,392	\$ 1,698,455
Interest earned on cash balances	85,808	61,848
Net realized gain on sale of investments	<u>677,117</u>	<u>172,795</u>
Total Investments revenue	<u>\$ 2,555,317</u>	<u>\$ 1,933,098</u>
Total Revenue	<u>\$ 5,422,452</u>	<u>\$ 4,699,491</u>
Expenses:		
Benefits:		
Retirement annuities	\$ 2,652,006	\$ 2,681,553
Survivors' annuities	635,956	587,092
Automatic annuity increase	<u>394,449</u>	<u>349,442</u>
Total Benefits expenses	\$ 3,682,411	\$ 3,618,087
Refunds	55,660	16,717
Administrative (Note 7)	<u>113,261</u>	<u>99,177</u>
Total Expenses	<u>\$ 3,851,332</u>	<u>\$ 3,733,981</u>
Excess of Revenue over Expenses	<u>\$ 1,571,120</u>	<u>\$ 965,510</u>
Fund Balance at beginning of year	\$ 30,106,386	\$ 29,152,605
Restatements - record investment in equipment, net of accumulated depreciation and accrued compensated absences (Note 3)	<u>-</u>	<u>(11,729)</u>
Fund Balance at beginning of year (as restated)	<u>\$ 30,106,386</u>	<u>\$ 29,140,876</u>
Fund Balance at end of year	<u>\$ 31,677,506</u>	<u>\$ 30,106,386</u>

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Financial Position Years ended June 30, 1989 and 1988

	1989	1988
Sources of working capital:		
Working capital provided by operations:		
Excess of revenue over expenses	\$ 1,571,120	\$ 965,510
Add (Deduct) items not providing working capital:		
Net realized (gain) on sale of investments reinvested	(677,117)	(172,795)
Net investments income reinvested	(1,792,392)	(1,698,455)
Depreciation expense	1,804	1,030
Loss on disposal of equipment	22	-
Other sources:		
Sale of investments	800,000	900,000
Total sources of working capital	<u>\$ (96,563)</u>	<u>\$ (4,710)</u>
Uses of working capital:		
Purchase of equipment	\$ 762	\$ 14,999
Total uses of working capital	<u>\$ 762</u>	<u>\$ 14,999</u>
Net (decrease) in working capital	<u>\$ (97,325)</u>	<u>\$ (19,709)</u>
Elements of net (decrease) in working capital:		
Cash	\$ (146,081)	\$ (40,434)
Receivables	57,063	15,840
Benefits and refunds payable	-	15,284
Administrative expenses payable	(2,538)	(5,917)
Due to Judges' Retirement System of Illinois	(5,769)	(4,482)
Net (decrease) in working capital	<u>\$ (97,325)</u>	<u>\$ (19,709)</u>

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements

June 30, 1989 and 1988

(1) Reporting Entity

The General Assembly Retirement System (System) is a component unit of the State of Illinois. The System is considered part of the State of Illinois financial reporting entity and is included in the state's comprehensive annual financial report as a pension trust fund.

The System has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the System should be included within its financial reporting entity. The criteria include, but are not limited to, whether the System exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships.

Based upon the above criteria, there were no other state agencies, boards or commissions which were required to be included within the financial reporting entity.

(2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1989 and 1988, the System membership consisted of:

	<u>1989</u>	<u>1988</u>
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	199	198
Survivors' annuities	123	123
Reversionary annuities	<u>3</u>	<u>3</u>
	325	324
 Inactive participants entitled to benefits but not yet receiving them	 <u>86</u>	 <u>83</u>
Total	<u>411</u>	<u>407</u>
 Current Participants:		
Vested	137	143
Nonvested	<u>47</u>	<u>42</u>
Total	<u>184</u>	<u>185</u>

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

(b) Contributions

The General Assembly Retirement System is funded through contributions from participants, State of Illinois

appropriations and investment income. Participants in the General Assembly Retirement System contribute 8-½ % of their salaries for retirement annuities, 2% for survivors' annuities and 1% for an annual automatic increase in the retirement annuity.

(c) Benefits

The General Assembly Retirement System, State of Illinois, was established in 1947 as a component unit of the State of Illinois and is governed by Chapter 108-½, Article 2 of the Illinois Revised Statutes.

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62. The General Assembly Retirement System also provides annual automatic annuity increases after retirement, survivors' annuity benefits, reversionary annuity benefits and, under specified conditions, lump-sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

The retirement annuity is determined according to the following formula based upon the participants' final rate of salary.

- 3.0% for each of the first 4 years of service, plus
- 3.5% for each of the next 2 years of service, plus
- 4.0% for each of the next 2 years of service, plus
- 4.5% for each of the next 4 years of service, plus
- 5.0% for each year of service in excess of 12 years

The maximum retirement annuity payable is 85% of the final rate of salary.

(3) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting — System Trust Fund

The financial transactions of the System are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Method Used to Value Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108-½, Article 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment

transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The agent of the master custodian is Depository Trust Company.

Listed below are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

At June 30, 1989, the ISBI Board's deposits and investments were categorized as follows:

	Category I	Category II	Category III	Cost	Market Value
U.S. Government Obligations	\$ 339,753,884			\$ 339,753,884	\$ 353,336,657
Foreign Obligations	22,735,960			22,735,960	24,618,841
Corporate Obligations	590,622,601			590,622,601	626,270,488
Convertible Bonds	111,089,097			111,089,097	117,721,836
Common Stock & Equity Fund	986,535,992			986,535,992	1,140,800,556
Convertible Preferred Stock	32,671,322			32,671,322	31,196,660
Preferred Stock	18,417,967			18,417,967	17,168,947
Money Market Instruments	295,027,112		\$ 4,307,882	299,334,994	299,334,994
SUB-TOTAL	\$2,396,853,935	\$ 0	\$ 4,307,882	\$ 2,401,161,817	\$ 2,610,448,979
Real Estate Pooled Funds				221,688,329	289,133,658
Venture Capital				84,210,543	104,600,570
TOTAL				\$2,707,060,689	\$ 3,004,183,207

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1989 and 1988, the ISBI Board had outstanding loaned investment securities having a market value of approximately \$148,865,699 and \$181,214,000, respectively, against which it had received collateral of approximately \$151,843,013 and \$188,263,000, respectively.

The System owns 1.1% of the ISBI Commingled Fund as of June 30, 1989.

(c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

(d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1987.

(e) Administrative Expenses

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 1989 and 1988, were \$101,651 and \$101,539, respectively.

(f) Retroactive Restatement

The financial statements reflect a retroactive restatement for fiscal years 1988 and 1987 to record the System's investment in fixed assets and a liability for accrued compensated absences. The restatement has a net effect of increasing the excess of revenue over expenses and Total Fund Balance by \$9,459 in 1988 and decreasing the Total Fund Balance by \$11,729 in 1987.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the General Assembly Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1989. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% and 7.5% per year compounded annually as of June 30, 1989 and 1988, respectively, (b) projected salary increase of 6% per year, (c) mortality rates based on the UP-1984 Mortality Table, and (d) assumed age at retirement ranging from 55 to 70, based upon recent history with the System. The change in the actuarial assumed rate of return on the investment of present and future assets from 7.5% to 8.0% had the effect of decreasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$3,360,420 during fiscal year 1989.

At June 30, 1989 and 1988, the unfunded pension benefit obligation was \$31,157,451 and \$34,054,095 as follows:

	1989	1988
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits, including inactive participants	\$ 39,064,737	\$ 42,423,903
Current Participants:		
Accumulated participant contributions	5,856,914	5,421,829
Employer-financed vested	12,316,308	10,761,199
Employer-financed nonvested	5,596,998	5,553,550
Total Pension benefit obligation	\$ 62,834,957	\$ 64,160,481
Net assets available for benefits, at cost	31,677,506	30,106,386
(market value at June 30, 1989 \$35,129,825; June 30, 1988 \$31,595,073)		
Unfunded pension benefit obligation	\$ 31,157,451	\$ 34,054,095

(5) Contributions Required and Contributions Made

Employer contributions made by the State of Illinois are based on the payout requirements of the System and are not actuarially determined. Prior to fiscal year 1988, employer contributions had been at a level of approximately 60% of the payout requirements of the System. For fiscal years 1989 and 1988, employer contributions have been at a level of approximately 44% of the payout requirements of the System.

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions are used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4. In the past, the System has used an actuarially determined contribution requirement of normal cost plus interest on the unfunded liability in order to assess the adequacy of employer contributions.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

The total amount of employer contributions required for the fiscal year ended June 30, 1989 amounted to \$3,514,623. The total amount of employer contributions made was \$1,997,500, thereby resulting in an under funding of \$1,517,123.

Schedule of Contributions Required and Contributions Made

	1989	1988	1987
Covered Payroll	\$ 7,592,956	\$ 6,873,250	\$ 6,643,710
Required Employer Contributions	3,514,623	3,273,090	3,296,451
Actual Employer Contributions	1,997,500	1,970,000	2,214,100
Actual Employer Contribution %	26.3%	28.7%	33.3%
Board of Trustees Recommended Contribution %	46.3%	47.6%	49.6%

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 22-23.

(7) Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 1989 and 1988 is as follows:

	1989	1988
Personal services	\$ 71,348	\$64,838
Retirement contributions	4,495	4,694
Social Security contributions	2,216	1,881
Group insurance	2,520	2,084
Contractual services	19,325	15,767
Travel	1,046	537
Printing	400	452
Commodities	705	338
Telecommunications	1,276	1,413
Electronic Data Processing	7,126	3,177
Depreciation	1,804	1,030
Other	1,000	2,966
Total	<u>\$113,261</u>	<u>\$99,177</u>

(8) Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment and certain electronic data processing equipment - 6 to 10 years.

A summary of the changes in fixed assets for fiscal years 1989 and 1988 is as follows:

	Beginning Balance	1989		Ending Balance
		Additions	Deletions	
Equipment	\$ 18,407	\$ 762	\$ 671	\$ 18,498
Accumulated Depreciation	3,811	1,804	649	4,966
Equipment, net	<u>\$ 14,596</u>	<u>\$ (1,042)</u>	<u>\$ 22</u>	<u>\$ 13,532</u>
	Beginning Balance	1988		Ending Balance
		Additions	Deletions	
Equipment	\$ 3,510	\$ 14,999	\$ 102	\$ 18,407
Accumulated Depreciation	2,883	1,030	102	3,811
Equipment, net	<u>\$ 627</u>	<u>\$ 13,969</u>	<u>\$ -</u>	<u>\$ 14,596</u>

(9)Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1989 and 1988 were \$16,198 and \$15,299, respectively.

(10)Analysis of Changes in Fund Balances — Reserved

The funded *statutory* reserves of the General Assembly Retirement System are composed of three components as follows:

(a) *Reserve for Participants' Contributions, Retirement and Survivors' Annuities* - This reserve consists of active participants' accumulated refundable contributions less refunds paid.

(b) *Reserve for Automatic Annuity Increase* - This reserve represents participants' accumulated contributions for the automatic annuity increase, plus an equal amount contributed by the State of Illinois, plus 4% interest credited on the fiscal year beginning balance, less automatic annuity increase benefits and refunds paid.

(c) *Reserve for Future Operations* - This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS
 Statements of Changes in Fund Balances (Reserved)
 Years ended June 30, 1989 and 1988

	Reserve for Participants' Contributions for Retirement and Survivors' Annuities	Automatic Annuity Increase	Future Operations	Total Fund Balance
Balance at June 30, 1987 as previously reported	\$ 5,555,017	\$ 859,800	\$ 22,737,788	\$ 29,152,605
Restatement to record investment in equipment, net of accumulated depreciation and accrued compensated absences	-	-	(11,729)	(11,729)
Balance at June 30, 1987 as restated	\$ 5,555,017	\$ 859,800	\$ 22,726,059	\$ 29,140,876
Add (deduct):				
Excess (deficiency) of revenue over expenses	722,112	(210,936)	454,334	965,510
Reserve transfers:				
Accumulated contributions of participants who retired during the year	(99,190)	-	99,190	-
Interest credited to automatic annuity increase reserve	-	34,392	(34,392)	-
Balance at June 30, 1988	\$ 6,177,939	\$ 683,256	\$ 23,245,191	\$ 30,106,386
Add (deduct):				
Excess (deficiency) of revenue over expenses	742,180	(249,922)	1,078,862	1,571,120
Reserve transfers:				
Accumulated contributions of participants who retired during the year	(171,851)	-	171,851	-
Interest credited to automatic annuity increase reserve	-	27,330	(27,330)	-
Balance at June 30, 1989	\$ 6,748,268	\$ 460,664	\$ 24,468,574	\$ 31,677,506

(11) Pension Disclosure

All of the System's full-time employees who are not eligible for another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer public employee retirement system (PERS) in which the State's departments and agencies participate on a cost-sharing basis. The SERS issues a separate component unit financial report (CUFR). The financial position and results of operations of the SERS for fiscal year 1989 and GASB Statement No. 5 footnote disclosures are also included in the State's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1989.

The System's covered payroll for fiscal year 1989 was \$71,348.

The SERS was established in 1944 and is governed by Article 14 of the Illinois Pension Code. Employees

who retire at or after age 60 with 8 years of credited service (or at 55 with at least 30 years of service with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon final average compensation (average salary for the 48 consecutive month period within the last 120 months of service in which total compensation was the highest) and credited service. The SERS provides for annuities of 1% to 1.67% of final average compensation for each of the first 10 years of service, 1.1% to 1.9% for each of the next 10 years, 1.3% to 2.1% for each of the third ten years and 1.5% to 2.3% for each year over 30 years of service. The maximum pension payable is 75% of final average compensation. Employees with 35 years of credited service may retire at any age with full benefits. The SERS also provides occupational, nonoccupational disability and death benefits.

Employees are obligated to contribute to the SERS based upon their compensation. Employees coordinated with Social Security generally contribute 4% while those not coordinated contribute 8%. The payments of required System contributions, all allowances, annuities, benefits granted under Article 14 of the Illinois Pension Code and all expenses of administration of the system are obligations of the State of Illinois to the extent specified in the Illinois Pension Code.

The System's actuarially determined contribution requirement for fiscal year 1989 was \$4,495 or 6.3% of the current year covered payroll. Actual contributions made by the System and its employees were \$4,495 and \$4,424, respectively. These amounts represent 6.3% and 6.2%, respectively, of the current year covered payroll.

The pension benefit obligation (PBO) below is the actuarial present value of credited projected benefits for all members of the SERS including the Agencies. It is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the PERS funding status on the going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS. The SERS does not make separate measurement of assets and pension benefit obligations for individual departments and agencies (or systems).

The pension benefit obligation at June 30, 1989 for the SERS as a whole, determined through an actuarial valuation at that date, was \$3,752.1 million. The SERS net assets available for benefits on that date (valued at cost) was \$2,580.2 million, leaving an unfunded pension benefit obligation of \$1,171.9 million. The System's fiscal year 1989 contribution requirement represented .003% of total contributions required of all State agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CUFR for the year ended June 30, 1989.

(12) Subsequent Event

On July 7 and August 23, 1989, respectively, the Governor signed into law Public Acts 86-0027 and 86-0273. These laws will have significant impact on the General Assembly Retirement System as relates to its Pension Benefit Obligation. For Elected State Executive Officers, Public Act 86-0027 provides that, effective January 1, 1990, salary for pension purposes shall be the salary received for the last year of service, without the previous limitation that it shall not exceed the salary of the highest salaried officer of the General Assembly. Public Act 86-0273 provides for compounded annual increases for annuitants and survivors effective January 1, 1990. It has been determined that the Pension Benefit Obligation and the related unfunded accrued benefit cost will increase by an estimated \$7,000,000 as a result of these provisions. In addition, the law provides for the systematic amortization of the unfunded liability over a 40 year period utilizing the projected unit credit actuarial cost method. There is a 7 year phase in period in order to raise the employer contributions from the current level to the level necessary to meet the 40 year amortization amount.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4)÷(5)
1987	\$29,140,876	\$60,635,325	48.1%	\$31,494,449	\$6,643,710	474.0%
1988	30,106,386	64,160,481	46.9%	34,054,095	6,873,250	495.5%
1989	31,677,506	62,834,957	50.4%	31,157,451	7,592,956	410.3%

*At cost

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source

Fiscal Year Ended June 30	Participant Contributions	State of Illinois	Income From Investments	Total
1980	\$ 726,650	\$1,708,205	\$1,231,531	\$3,666,386
1981	736,918	2,249,683	1,475,142	4,461,743
1982	766,686	1,461,637	1,577,311	3,805,634
1983	786,705	2,119,281	2,877,001	5,782,987
1984	658,899	1,524,800	2,204,477	4,388,176
1985	679,000	2,218,732	1,516,230	4,413,962
1986	1,059,024	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	2,555,317	5,422,452

Expenses by Type

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1980	\$1,597,467	\$ 40,401	\$ 57,911	\$1,695,779
1981	1,866,302	104,560	62,261	2,033,123
1982	2,094,792	56,797	67,284	2,218,873
1983	2,389,904	185,106	72,547	2,647,557
1984	2,712,913	71,902	76,642	2,861,457
1985	2,955,395	118,711	79,401	3,153,507
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332

Analysis of Employer Contributions — Fiscal Year 1989 and 1988

<u>Fiscal Year</u>	<u>Employer Contribution Required (A)</u>	<u>Employer Contribution Made</u>	<u>Contribution Required in Excess of Contribution Made</u>
1988	\$3,273,090	\$1,970,000	\$1,303,090
1989	3,514,623	1,997,500	1,517,123

(A)=Prior to Fiscal Year 1988, the actuary did not determine an "Employer Contribution Required" amount.

SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1989 and 1988

	1989	1988
Contributions:		
Participants	\$ 867,817	\$ 796,393
Interest received from participants	1,818	-
Total participants contributions	<u>\$ 869,635</u>	<u>\$ 796,393</u>
General Revenue Fund	\$1,933,700	\$1,918,900
State Pension Fund	63,800	51,100
Total state contributions	<u>\$1,997,500</u>	<u>\$1,970,000</u>
Total Contributions revenue	<u>\$2,867,135</u>	<u>\$2,766,393</u>
Investments:		
Net investments income	\$1,792,392	\$1,698,455
Interest earned on cash balances	85,808	61,848
Net realized gain on sale of investments	677,117	172,795
Total Investments revenue	<u>\$2,555,317</u>	<u>\$1,933,098</u>
Total Revenue	<u>\$5,422,452</u>	<u>\$4,699,491</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1989 and 1988

	1989	1988
Cash balance, beginning of year	<u>\$ 494,346</u>	<u>\$ 534,780</u>
Receipts:		
Participant contributions	\$ 812,050	\$ 789,116
State of Illinois contributions:		
General Revenue Fund	1,933,700	1,918,900
State Pension Fund	63,800	51,100
Interest income on cash balances	85,539	59,220
Transfer from Illinois State Board of Investment	800,000	900,000
Total cash receipts	<u>\$3,695,089</u>	<u>\$3,718,336</u>
Disbursements:		
Benefit payments:		
Retirement annuities	\$2,652,006	\$2,695,649
Survivors' annuities	635,166	593,361
Automatic annuity increase	394,448	349,316
Refunds	55,660	17,697
Administrative expenses	103,890	102,747
Total cash disbursements	<u>\$ 3,841,170</u>	<u>\$3,758,770</u>
Cash balance, end of year	<u>\$ 348,265</u>	<u>\$ 494,346</u>

REVENUES

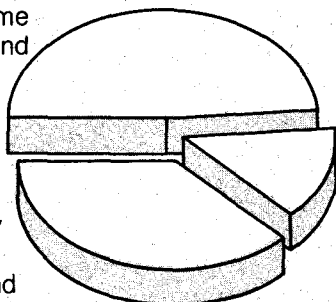
Total revenue of \$5,422.4 thousand for FY 1989 was a \$722.9 thousand increase from the FY 1988 level of \$4,699.5 thousand. Net income from investments and net realized gains on sales of investments were significantly greater than the prior fiscal year. State contributions show an increase of 1.4% (\$27.5 thousand). Participant contributions were \$869.6 thousand (9.2%) higher than for FY 1988.

Revenue Source	FY 89 (Thousands)	FY 88 (Thousands)	Increase/(Decrease)	
			Amount	Percentage
Participant Contributions	\$ 869.6	\$ 796.4	\$ 73.2	9.2%
State Contributions	1,997.5	1,970.0	27.5	1.4%
Investment Income	<u>2,555.3</u>	<u>1,933.1</u>	<u>622.2</u>	<u>32.2%</u>
Total	<u>\$5,422.4</u>	<u>\$4,699.5</u>	<u>\$722.9</u>	<u>15.4%</u>

REVENUES BY SOURCE 1989 TOTAL REVENUES \$5,422.4 Thousand

Investment Income
\$2,555.3 Thousand

Contributions By
State of Illinois
\$1,997.5 Thousand

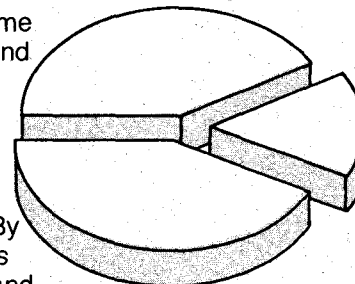


REVENUES BY SOURCE 1988 TOTAL REVENUES \$4,699.5 Thousand

Investment Income
\$1,933.1 Thousand

Contributions By
Participants
\$869.6 Thousand

Contributions By
State of Illinois
\$1,970.0 Thousand



Gross investment income for 1989 of \$1,877,847, less the Investment Board's administrative expenses of \$85,455, resulted in net investment income of \$1,792,392. This amount, when combined with the net realized gain on sale of investments of \$677,117, provided net revenue from investments of \$2,469,509. Cash transfers from the Illinois State Board of Investment were \$800,000 during FY 1989. The balance of investments at cost increased by \$1,669,509 from June 30, 1988 thru June 30, 1989. The following table shows a comparison of investment operations for FY 1989 and FY 1988.

	1989	1988	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year, at cost	\$29,620,883	\$28,649,633	\$ 971,250	3.4%
Cash transferred from ISBI	(800,000)	(900,000)	(100,000)	(11.1)%
Investment income:				
Commingled Fund income	\$ 1,877,847	\$ 1,770,471	\$ 107,376	6.1%
Less Expenses	(85,455)	(72,016)	13,439	18.7%
Net investment income	<u>\$ 1,792,392</u>	<u>\$ 1,698,455</u>	<u>\$ 93,937</u>	<u>5.5%</u>
Distributed Net Realized Gain on Sale of Investments	<u>\$ 677,117</u>	<u>\$ 172,795</u>	<u>\$ 504,322</u>	<u>291.9%</u>
Balance at end of year, at cost	<u>\$31,290,392</u>	<u>\$29,620,883</u>	<u>\$1,669,509</u>	<u>5.6%</u>
Market value	<u>\$34,742,711</u>	<u>\$ 31,109,570</u>	<u>\$3,633,141</u>	<u>11.7%</u>

In addition, interest on the average balance in the System Trust Fund's account for FY 1989 was \$85,808 compared to \$61,848 during FY 1988.

EXPENSES

There was virtually no change in the number of members receiving retirement, survivors' and reversionary annuities between fiscal year 1989 and 1988. The increased dollar amount of benefits reflects the extended service period of newly retired members as well as post retirement increases granted each January 1.

	FY 89 (Thousands)	FY 88 (Thousands)	Increase/(Decrease)	
			Amount	Percentage
Retirement annuities	\$2,652.0	\$2,681.6	\$(29.6)	(1.1)%
Survivors' annuities	636.0	587.1	48.9	8.3%
Automatic annuity increase	394.4	349.4	45.0	12.9%
Refunds	55.6	16.7	38.9	232.9%
Administrative expense	113.3	99.2	14.1	14.2%
TOTAL EXPENSES	\$3,851.3	\$3,734.0	\$117.3	3.1%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1988	New Claims Processed During FY 89	Benefits Ceased During FY 89	FY Ended June 30, 1989	Increase/(Decrease)	
					Amount	Percentage
Retirement	198	6	5	199	1	0.5%
Survivors'	123	4	4	123	-	0.0%
Reversionary	3	-	-	3	-	0.0%
TOTALS	324	10	9	325	1	0.3%

RESERVES

As of June 30, 1989, the funds available for payment of current and future benefits were \$31,677.5 thousand as shown in the following schedule:

	FY 89 (Thousands)	FY 88 (Thousands)	Increase/ (Decrease)
Assets			
Cash	\$ 348.3	\$ 494.3	\$ (146.0)
Receivables (less payables)	25.3	(23.4)	48.7
Investments	31,290.4	29,620.9	1,669.5
Fixed Assets (net of accumulated depreciation)	13.5	14.6	(1.1)
NET ASSETS	\$31,677.5	\$30,106.4	\$1,571.1

Total System revenues for FY 1989 of \$5,422.4 thousand less expenditures of \$3,851.3 thousand resulted in a net increase to reserves of \$1,571.1 thousand.

	FY 89 (Thousands)	FY 88 (Thousands)	Increase/ (Decrease)
Reserves			
Participant Contributions	\$ 6,748.3	\$ 6,177.9	\$ 570.4
Automatic Annuity Increase	460.6	683.3	(222.7)
Future Operations	24,468.6	23,245.2	1,223.4
TOTAL RESERVES	\$31,677.5	\$30,106.4	\$1,571.1

Participant contributions transferred to the Reserve for Future Operations due to retirement or death of active participants during the year amounted to \$171.9 thousand.

Actuarial Section

Actuary's Report

Introduction

Actuarial Cost Method and Summary of Major Actuarial Assumptions

Valuation Results

Short-term Solvency Test

Analysis of Funding

Reconciliation of Unfunded Actuarial Liability

Beneficiaries Added To and Removed From Rolls



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October 19, 1989

Board of Trustees and Executive Secretary
General Assembly Retirement System of Illinois
2815 West Washington Street
P.O. Box 19255
Springfield, Illinois 62794-9255

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the General Assembly Retirement System of Illinois as of June 30, 1989. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system. The actuarial assumptions used for the current valuation were similar to those used for the last valuation except that the interest rate assumption was increased from 7.5% to 8.0%, resulting in a decrease of approximately 5.1% in the total actuarial liability.

Senate Bill 1258 which was signed into law on July 7, 1989 as Public Act 86-0027 and Senate Bill 95 which was signed into law on August 23, 1989 as Public Act 86-0273 made a number of changes in the provisions of the system. The benefit changes made under these bills were not taken into account in determining the actuarial liability as of June 30, 1989, as they were enacted after June 30, 1989. However, they were taken into account in determining State contribution requirements for Fiscal Years 1991-1996. The major changes enacted under Public 86-0027 and Public Act 86-0273 are as follows: (1) For elected State executive officers, salary for pension purposes shall be the salary received for the last year of service; (2) The 3% automatic annual increase in retirement annuity shall be based on the current amount of annuity instead of the original amount of annuity; (3) Provides for 3% automatic annual increases in surviving spouse's annuities, based on the current amount of annuity; (4) Provides for increases in a member's earned retirement annuity of 3% per year, commencing one year following the later of (a) completion of 20 years of service, and (b) attainment of age 55; and (5) Provides that annual State appropriations shall be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percent of payroll, after an initial phase-in period ending June 30, 1996.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every three years and recommend as a result of such investigation the actuarial assumptions to be adopted. As the actuary, I have completed such an experience analysis for the three years ending June 30, 1987 and the assumptions used for the current valuation were based on that study. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.



S. Goldstein and Associates
consulting actuaries

Contribution rates have been determined providing for the normal cost plus an amortization of the unfunded actuarial liability as required under Public Act 86-0273. Normal cost rates are expected to remain constant as a percent of payroll, while the amortization contribution rate will increase in equal annual increments from the 1990 fiscal year rate until the 1996 fiscal year rate is reached. The total contribution rate can thus be expected to rise gradually until fiscal year 1996, remain level until fiscal year 2035, and then drop to a constant normal cost rate. Employer contributions in recent years have been less than that required under this new financing plan.

The asset values used for the valuation were based on the asset information reported by the Illinois State Board of Investment. For purposes of the valuation, the value of assets at cost was increased by the average excess of market value over cost as of the last three year ends. The liabilities have been based on the membership data which was supplied by the administrative staff of the system and verified by the system's auditor. I have made additional tests to ensure its accuracy.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the General Assembly Retirement System of Illinois as of June 30, 1989. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 86-0273.

Respectfully submitted,

Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 3402

INTRODUCTION

For many years, the state's contribution to the System has been based on projected benefit payments (payout). For FY 1989, regular state appropriations were made at a level of 44% of the System projected payout.

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying a rate of contribution, based upon participants' compensation, required to be paid to the System during the succeeding fiscal year. The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Article 2-146 of the Illinois Revised Statutes.

The statutes do not currently specify any particular funding method to be utilized by the System; nor, is the amortization period to be used for prior unfunded service costs currently specified in the law.

Based upon the state's funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

The underfunding of employer contributions places undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs.

In an attempt to address the pension funding dilemma, the state legislature passed S.B.95, which provides for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40-year amortization level. The phase in period begins in FY 1990.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit cost method. Under this method, the actuarial liability is the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

A description of the actuarial assumptions utilized for FY-89 and FY-88 follows:

Mortality Rates: The UP-1984 Mortality Table was used for the valuation.

Termination Rates: Termination rates based on the recent experience of the System were used. The following termination rates were used:

Age	Rate of Termination
20 - 54	.080
55 and over	.000

Disability Rates: Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used for the valuation:

Age	Rate of Disability
30	.00057
35	.00064
40	.00083
45	.00115
50	.00170

Retirement Rates:

Rates of retirement for each age from 55 to 70 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement
55	.2
60	.1
65	.1
70	1.0

The above retirement rates are equivalent to an average retirement age of approximately 62.

Salary Increase:

A salary increase assumption of 6.0% per year, compounded annually, was used.

Interest Rate:

The interest rate assumption was increased to 8.0% per year, compounded annually, for FY-89. An interest rate assumption of 7.5% per year, compounded annually, was used for FY-88.

Marital Status:

It was assumed that 75% of active participants will be married at the time of retirement.

Spouse's Age:

The age of the spouse was assumed to be 4 years younger than the age of the employee.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-89	FY-88
For Active Participants:		
Basic retirement annuity	\$ 12,859,034	\$ 11,371,459
Annual increase in retirement annuity	2,171,248	2,026,428
Pre-retirement survivors' annuity	1,153,567	1,069,933
Post-retirement survivors' annuity	2,590,213	2,308,897
Withdrawal benefits	4,843,785	4,812,165
Disability benefits	152,373	147,696
Total	\$ 23,770,220	\$ 21,736,578
For Participants Receiving Benefits:		
Retirement annuities	\$ 29,220,187	\$ 32,335,057
Survivor annuities	4,842,277	4,820,324
Total	\$ 34,062,464	\$ 37,155,381
For Inactive Participants	\$ 5,002,273	\$ 5,268,522
Total Actuarial Liability	\$ 62,834,957	\$ 64,160,481
Net Assets, Book Value (Cost)	\$ 31,677,506	\$ 30,106,386
Unfunded Actuarial Liability	\$ 31,157,451	\$ 34,054,095

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active participants. In a system that has been following level percent of payroll financing, the liabilities for active participant contributions on deposit (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels.

Computed Actuarial Values

Fiscal Year	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1)	(2)	(3)	Net Real Assets	(1)	(2)	(3)
	Active Participant Contributions	Retirement and Survivor Annuity	Active Participants (Employer Financed Portion)				
1983	\$4,129,682	\$23,637,775	\$20,069,286	\$20,463,697	100%	69.1%	- %
1984	4,539,234	25,818,124	22,833,250	21,990,416	100	67.6	-
1985	4,612,815	27,616,936	26,432,984	23,250,871	100	67.5	-
1986	5,373,363	30,829,965	30,247,333	26,738,976	100	69.3	-
1987	6,414,817	36,673,471	17,547,037	29,140,876	100	62.0	-
1988	6,861,195	37,155,381	20,143,905	30,106,386	100	62.6	-
1989	7,208,932	34,062,464	21,563,561	31,677,506	100	71.8	-

ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active participant payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker. (It should be noted that the improvement reflected in the following schedule for recent years results primarily from significant realized gains on the sale of investments previously described and the change in the actuarial interest rate assumption from 7.5% to 8.0% during fiscal year 1989.)

Fiscal Year	Rate of Funding		Unfunded Accrued Liabilities	Rate of Funding
	Reserve Requirement	Net Real Assets		
1983	\$47,836,743	\$20,463,697	\$27,373,046	42.8%
1984	53,190,608	21,990,416	31,200,192	41.3%
1985	58,662,735	23,250,871	35,411,864	39.6%
1986	66,450,661	26,738,976	39,711,685	40.2%
1987	60,635,325	29,140,876	31,494,449	48.1%
1988	64,160,481	30,106,386	34,054,095	46.9%
1989	62,834,957	31,677,506	31,157,451	50.4%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-89	FY-88
Unfunded actuarial liability at Beginning of FY	\$ 34,054,095	\$ 31,494,449
Employer contribution requirement of normal cost plus interest on the unfunded liability	\$ 3,514,623	\$ 3,273,090
Actual employer contribution for the year	1,997,500	1,970,000
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	\$ 1,517,123	\$ 1,303,090
(Decrease) in unfunded liability due to investment return greater than assumed	(301,000)	(18,000)
(Decrease) in unfunded liability due to increase in interest rate assumption from 7.5% to 8.0%	(3,360,420)	-
Increase/(Decrease) in unfunded liability due to salary increases greater (less) than assumed	1,192,000	(206,000)
Increase/(Decrease) in unfunded liability due to other sources	(1,944,347)	1,480,556
Total Actuarial (Gains) Losses	\$ (4,413,767)	\$ 1,256,556
Net Increase/(Decrease) in unfunded liability for the year	\$ (2,896,644)	\$ 2,559,646
Unfunded actuarial liability at End of FY	\$ 31,157,451	\$ 34,054,095

BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Annuitants				Survivors*				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
1980	149	4	7	146	95	7	4	98	244
1981	146	29	9	166	98	9	7	100	266
1982	166	7	4	169	100	7	3	104	273
1983	169	34	12	191	104	9	4	109	300
1984	191	7	11	187	109	12	4	117	304
1985	187	16	5	198	117	5	3	119	317
1986	198	9	8	199	119	6	2	123	322
1987	199	17	10	206	123	6	3	126	332
1988	206	5	13	198	126	6	6	126	324
1989	198	6	5	199	126	4	4	126	325

*Includes Reversionary annuities

Investment Section

Investment Report

Investment Portfolio Summary

Analysis of Investment Performance

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the General Assembly Retirement System, the ISBI Board also managed the investment function for the Judges' and State Employees' Retirement Systems. As of June 30, 1989, total net assets under management valued at market, amounted to \$3.049 billion. Of the total assets under management, \$34.743 million or 1.1% represented assets of the General Assembly Retirement System.

Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries.

In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major assets classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

Total Fund Results

As a result of the continuing recovery in the equity markets from the October, 1987 crash and as a result of the diversification of asset allocations by the ISBI Board, the Fund achieved a rate of return of 14.3% for the fiscal year ending June 30, 1989. Despite the somewhat defensive posture the ISBI Board has taken in determining acceptable risk and in determining asset allocation due to the relatively small amount of new investment capital from its member systems, the Fund was in the upper 40th percentile of performance by SEI State Retirement System Universe during the last fiscal year.

When viewed over the seven year period since the adoption of the prudent person legislation, the Fund has produced a compounded annual rate of return of 14.9%. The last three and five year returns were 8.4% and 14.1%, respectively. These results are far in excess of the ISBI Board's stated goal of producing total returns of 1½% to 3% in excess of the actuarial assumptions used by the three retirement systems.

No major changes in asset allocation were effectuated during the fiscal year. Maintaining a relatively low average allocation to cash during the year benefited the total Fund performance as cash was the poorest performing asset class.

During the last fiscal year, the ISBI Board and an investment consultant engaged for such purpose, made a detailed study of long-term investment opportunities in foreign securities. This review resulted in the ISBI Board adopting a policy of committing up to 10% of its assets to non-dollar equities. In doing so, the ISBI Board recognized that such securities represent a significant and increasing percentage of the world market place and that it is in the best interest of the Fund to participate in these investment opportunities. The primary objective being to further diversify the Fund's equity portfolio by asset allocation and to primarily utilize active external managers to accomplish this objective.

Fixed Income Results

The largest portion of the fixed income component is managed internally in a portfolio having an objective of outperforming the Shearson/Lehman Aggregate Bond Index. The internally managed account did outperform that benchmark by achieving a return of 12.6% versus 12.2%. Funds managed by the convertible bond and high-yield external managers are also included in fixed income allocation.

Comparative returns of the composite of the funds allocated to the fixed income managers and the benchmark indices are set forth below:

	1 Year	3 Year	5 Year
ISBI	12.0%	9.0%	15.3%
Shearson Lehman G/C	12.3%	8.1%	14.4%
Shearson Lehman A/C	12.2%	8.6%	14.8%

Equity Results

There were no changes made in fiscal 1989 to the equity investment manager team. As previously noted, the internally managed portfolios were earmarked as the funding source for the new non-dollar equity allocation. Liquidation of a significant portion of each of the internal portfolios began in March (and will continue into fiscal year 1990), well ahead of the anticipated funding dates of the five international and global managers. This was done in order to reduce the negative market impact of selling the holdings of these largely small capitalization stock portfolios. The Fund's overall equity exposure was maintained at approximately 42% by buying S&P 500 futures contracts as stocks were sold.

The composite return of the funds managed by the ten external and two internal equity managers was 17.0% versus the S&P 500's return of 20.6% for the fiscal year. Returns for additional time periods are set forth below:

	1 Year	3 Years	5 Years
ISBI	17.0%	8.5%	14.2%
S&P 500	20.6%	12.0%	19.2%

Real Estate

The ISBI Board continued to diversify the real estate portfolio by approving commitments to the Zell/Merrill Lynch Real Estate Opportunity Partners L.P., which makes equity investments in undervalued and opportunistic real estate assets; the AMLI Land Development L.P., which acquires and improves parcels of land suitable for development; and the JMB Acquisition Partners L.P., which will acquire entire companies or divisions of companies where interests in real estate assets constitute the majority of the investment.

The real estate portfolio represents 9.8% of the total Fund which is very near the ISBI Board's target allocation for this asset class of 10%. The composite real estate portfolio achieved a total return of 11.0% for the fiscal year, which placed it in the upper quartile of return for real estate funds as tracked by Callan Associates.

Non-Marketable Equity Interests

This allocation grew from 2.2% of the total Fund at the beginning of the year to 3.4% at the end of the year as commitments were funded and investments appreciated. The combined return for the fiscal year on these limited partnerships (largely represented by equity interests in privately held companies) was 29.0%, which was largely attributed to income and appreciation in the Kohlberg Kravis Roberts & Co. limited partnership which exceeded 33%. As outstanding commitments are funded, the ISBI Board's target allocation to these alternative investments of 5% will be achieved.

Management Expense

Total operating expenses for the fiscal year were \$7,382,920 as compared to \$6,059,008 for the previous fiscal year. The expense ratio (expenses divided by assets under management) increased slightly from .23% to .26% reflecting a full year of external management fees versus a partial year for the convertible bond and high-yield external managers and the software design cost of a new accounting system. The General Assembly Retirement System's share to total operating expenses amounted to \$85,455.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1989. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1989 Market Value	Percentage	June 30, 1988 Market Value	Percentage
Fixed Income	\$ 1,121,947,822	36.8%	\$ 1,100,732,282	41.2%
Equities	1,273,481,163	41.8%	1,067,817,434	40.0%
Cash	215,019,994	7.0%	162,488,906	6.1%
Real Estate	289,133,658	9.5%	254,227,296	9.5%
Non-marketable	104,600,570	3.4%	57,642,361	2.2%
	<u>\$ 3,004,183,207</u>	<u>98.5%</u>	<u>\$ 2,642,908,279</u>	<u>99.0%</u>
Other assets, less liabilities	<u>45,078,925</u>	<u>1.5%</u>	<u>26,276,144</u>	<u>1.0%</u>
Net assets at market value	<u>\$ 3,049,262,132*</u>	<u>100.0%</u>	<u>\$ 2,669,184,423*</u>	<u>100.0%</u>
Net assets, at cost	<u>\$ 2,752,152,181*</u>		<u>\$ 2,542,296,711*</u>	

*These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the General Assembly Retirement System at market and cost for fiscal year 1989 were \$34,742,711 and \$31,290,392, respectively. For fiscal year 1988 the market and cost values were \$31,109,570 and \$29,620,883, respectively.

ANALYSIS OF INVESTMENT PERFORMANCE

	1989	1988	1987	1986	1985
Total Return* - Past 3 years		8.4%			
Total Return* - Past 5 years			14.1%		
Total Return* - year by year	14.3%	2.5%	8.8%	24.6%	22.0%
Actuarial Assumed Rate of Return	8.0%	7.5%		6.0%	
Average Net Income Yield*	5.7%	5.6%	5.3%	6.4%	7.3%
Comparative rates of return on fixed income securities					
Total fixed income — ISBI	12.0%	9.3%	5.7%	17.9%	34.9%
Comparison index: Shearson Lehman Government/ Corporate Bond Index	12.3%	7.5%	4.7%	20.6%	28.7%
Comparative rates of return on equities					
Total equities - ISBI	17.0%	(4.6)%	14.4%	36.5%	15.8%
Comparison index: S & P 500	20.6%	(6.9)%	25.1%	35.7%	30.7%

*Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

Statistical Section

Balance Sheet Assets

Balance Sheet Liabilities and Fund Balance

Revenues by Source

Expenses by Type

Benefit Expenses by Type

Number of Participants

Number of Recurring Benefit Payments

Termination Refunds — Number/Amount

Number on Active Payrolls

Active Retirees by State

Retirement Annuitants Statistics

BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Cash	Receivables	Investments at Cost	Fixed Assets Net of Accumulated Depreciation	Total
1980	\$366,281	\$61,477	\$13,587,096	-	\$14,014,854
1981	315,970	4,348	15,401,144	-	15,721,462
1982	469,123	7,379	16,868,387	-	17,344,889
1983	855,726	77,925	19,550,646	-	20,484,297
1984	370,721	6,364	21,638,352	-	22,015,437
1985	194,235	60,245	23,015,713	-	23,270,193
1986	511,796	34,252	26,214,899	-	26,760,947
1987	534,782	3,788	28,649,633	\$ 627	29,188,830
1988	494,346	19,628	29,620,883	14,596	30,149,453
1989	348,265	76,691	31,290,392	13,532	31,728,880

BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participants' Contributions for Retirement and Survivors' Annuities	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1980	\$14,572	\$3,745,881	\$1,052,889	\$9,201,512	\$14,014,854
1981	15,430	3,840,316	1,127,504	10,738,212	15,721,462
1982	16,622	4,310,327	1,176,380	11,841,560	17,344,889
1983	20,600	4,129,681	1,183,439	15,150,577	20,484,297
1984	25,021	4,539,234	1,146,005	16,305,177	22,015,437
1985	19,322	4,612,815	1,062,563	17,575,493	23,270,193
1986	21,971	5,373,363	1,009,112	20,356,501	26,760,947
1987	47,954	5,555,017	859,800	22,726,059	29,188,830
1988	43,067	6,177,939	683,256	23,245,191	30,149,453
1989	51,374	6,748,268	460,664	24,468,574	31,728,880

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	State of Illinois	Income From Investments	Total
1980	\$ 726,650	\$1,708,205	\$1,231,531	\$3,666,386
1981	736,918	2,249,683	1,475,142	4,461,743
1982	766,686	1,461,637	1,577,311	3,805,634
1983	786,705	2,119,281	2,877,001	5,782,987
1984	658,899	1,524,800	2,204,477	4,388,176
1985	679,000	2,218,732	1,516,230	4,413,962
1986	1,059,024	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	2,555,317	5,422,452

EXPENSES BY TYPE

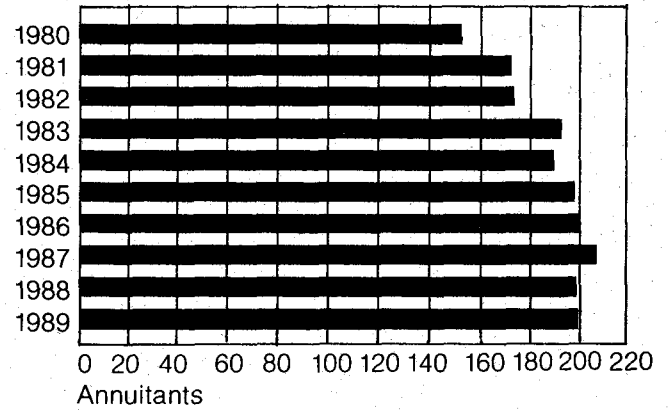
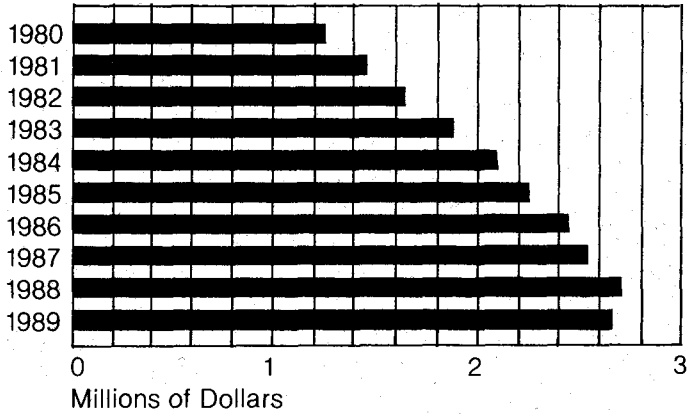
Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1980	\$1,597,467	\$ 40,401	\$ 57,911	\$1,695,779
1981	1,866,302	104,560	62,261	2,033,123
1982	2,094,792	56,797	67,284	2,218,873
1983	2,389,904	185,106	72,547	2,647,557
1984	2,712,913	71,902	76,642	2,861,457
1985	2,955,395	118,711	79,401	3,153,507
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332

BENEFIT EXPENSES BY TYPE

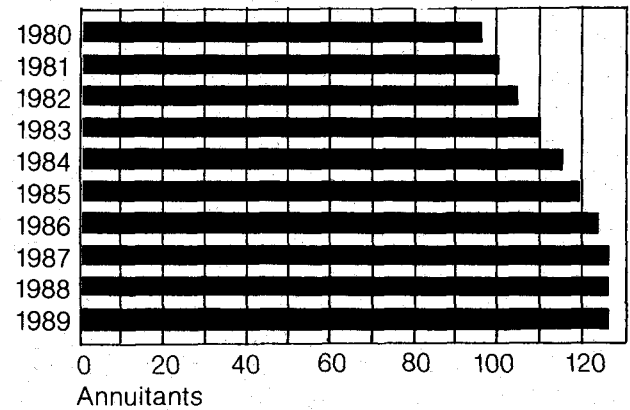
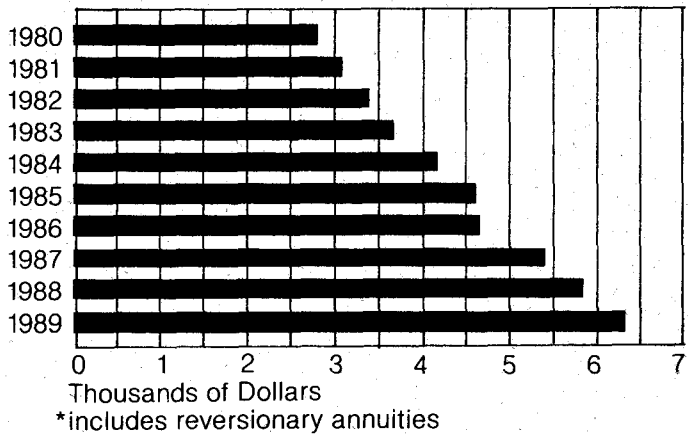
Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities*	Automatic Annuity Increase	Total
1980	\$1,240,820	\$280,234	\$ 76,413	\$1,597,467
1981	1,459,697	302,717	103,888	1,866,302
1982	1,617,909	343,151	133,732	2,094,792
1983	1,863,377	365,598	160,929	2,389,904
1984	2,102,180	417,622	193,111	2,712,913
1985	2,252,408	468,076	234,911	2,955,395
1986	2,448,588	472,153	279,471	3,200,212
1987	2,597,704	547,413	316,095	3,461,212
1988	2,681,553	587,092	349,442	3,618,087
1989	2,652,006	635,956	394,449	3,682,411

*Includes Reversionary annuities.

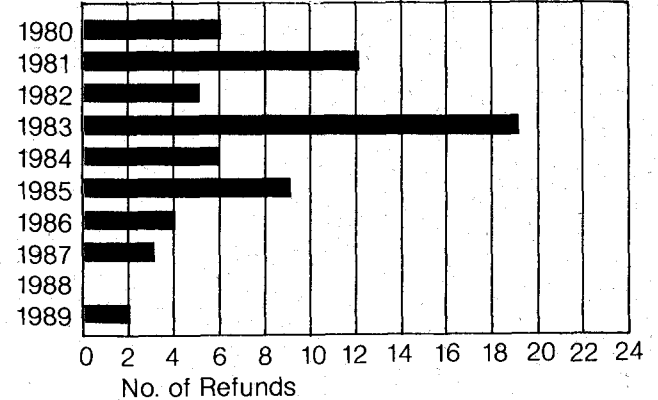
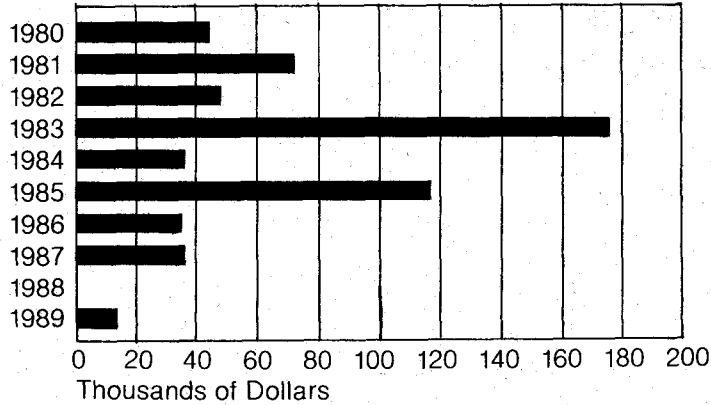
Retirement Annuities



Survivor Annuities*



Termination Refunds



NUMBER OF PARTICIPANTS

Fiscal Year	Active				Inactive				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
1980	236	7	5	238	93	2	9	86	324
1981	238	44	46	236	86	15	20	81	317
1982	236	7	4	239	81	0	11	70	309
1983	239	39	89	189	70	50	15	105	294
1984	189	5	5	189	105	5	12	98	287
1985	189	24	23	190	98	9	15	92	282
1986	190	7	5	192	92	3	14	81	273
1987	192	26	30	188	81	14	9	86	274
1988	188	1	4	185	86	3	6	83	268
1989	185	9	10	184	83	12	9	86	270

NUMBER OF RECURRING BENEFIT PAYMENTS

at June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total
1980	146	97	1	244
1981	166	99	1	266
1982	169	102	2	273
1983	191	107	2	300
1984	187	115	2	304
1985	198	116	3	317
1986	199	120	3	322
1987	206	123	3	332
1988	198	123	3	324
1989	199	123	3	325

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1980	6	\$ 44,402
1981	12	73,716
1982	5	48,265
1983	19	177,273
1984	6	37,363
1985	9	118,711
1986	4	36,171
1987	3	36,994
1988	-	-
1989	2	15,475

NUMBER ON ACTIVE PAYROLLS

at June 30	Elected State Officers	House Members	Senate Members	Miscellaneous Active	Total
1980	4	176	58	-	238
1981	5	173	58	-	236
1982	5	173	58	3	239
1983	6	117	59	7	189
1984	6	117	59	7	189
1985	6	116	59	9	190
1986	6	116	59	11	192
1987	6	116	59	7	188
1988	6	116	59	4	185
1989	6	115	59	4	184

ACTIVE RETIREES BY STATE

ALABAMA	0	KENTUCKY	0	NORTH DAKOTA	0
ALASKA	0	LOUISIANA	0	OHIO	0
ARIZONA	1	MAINE	0	OKLAHOMA	0
ARKANSAS	0	MARYLAND	0	OREGON	1
CALIFORNIA	0	MASSACHUSETTS	0	PENNSYLVANIA	0
COLORADO	0	MICHIGAN	0	RHODE ISLAND	0
CONNECTICUT	0	MINNESOTA	1	SOUTH CAROLINA	0
DELAWARE	0	MISSISSIPPI	0	SOUTH DAKOTA	0
DISTRICT OF COLUMBIA	4	MISSOURI	0	TENNESSEE	1
FLORIDA	4	MONTANA	0	TEXAS	1
GEORGIA	0	NEBRASKA	0	UTAH	0
HAWAII	0	NEVADA	0	VERMONT	0
IDAHO	0	NEW HAMPSHIRE	0	VIRGINIA	1
ILLINOIS	179	NEW JERSEY	1	WASHINGTON	0
INDIANA	1	NEW MEXICO	0	WEST VIRGINIA	0
IOWA	0	NEW YORK	0	WISCONSIN	4
KANSAS	0	NORTH CAROLINA	0	WYOMING	0
				OTHER COUNTRIES	0
				TOTAL	199

RETIREMENT ANNUITANTS STATISTICS

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
1. Average annual annuity	\$15,581	\$15,026	\$14,590	\$13,826	\$13,430	\$12,483	\$12,025	\$10,414	\$9,860	\$8,967
2. Average age at retirement	60.3	60.6	61.0	61.1	61.2	61.4	61.6	61.8	61.8	62.1
3. Average length of service (years)	13.9	14.2	14.3	14.5	14.8	14.8	14.8	14.8	14.6	15.2
4. Average annual salary at retirement	\$26,080	\$24,283	\$24,112	\$22,735	\$21,852	\$20,617	\$20,151	\$17,813	\$17,137	\$15,258
5. Average age at June 30	69.9	69.5	69.3	69.3	69.0	68.8	68.5	69.3	68.8	69.5
6. Proportion of married annuitants	91.0%	90.0%	87.9%	86.4%	82.3%	88.2%	89.0%	88.2%	88.0%	87.7%
7. Average annual annuity to an eligible spouse	\$10,650	\$10,190	\$10,139	\$9,431	\$9,304	\$8,414	\$8,111	\$6,920	\$6,663	\$6,063

Plan Summary and Legislative Section

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 1989)

1. PURPOSE

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of 7 members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to insure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become members of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

A participant with at least 6 years of service may, following termination of service in the General Assembly, elect to continue participation while employed in certain other positions of public service.

4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the cost of the various benefits at the rates shown below:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	<u>2.0%</u>
Total	<u>11.5%</u>

5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least 8 years of credit or at age 62 with at least 4 years of credit.

B. Amount of Annuity

Effective January 1, 1982, the retirement annuity is determined according to the following formula based on the applicable salary:

3.0% for each of the first 4 years of credit;
3.5% for each of the next 2 years of credit;
4.0% for each of the next 2 years of credit;
4.5% for each of the next 4 years of credit;
5.0% for each year of service in excess of 12 years.

The maximum annuity is 85% of final rate of salary after 20 years of credit.

C. Optional Forms of Payment

Reversionary Annuity — A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

D. Annual Increases in Retirement Annuity

Post retirement increases of 3% of the original annuity are granted to participants effective in January of the year next following the first anniversary of retirement and in January of each year thereafter.

E. Suspension of Retirement Annuity

An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 8 years of credit. To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children of the participant under age 18 or over age 18 if disabled. Eligible surviving children would be entitled to benefits if no spouse survives.

B. Amount of Payment

If the participant's death occurs while in service, the surviving spouse without eligible children of the member would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children of the participant would receive 30% of salary increased 10% of salary for each minor child, subject to a maximum of 50% of salary to a family.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children of the participant would be eligible to 66-2/3% of earned retirement annuity. A surviving spouse with eligible children would receive 75% of earned retirement annuity.

C. Duration of Payment

When all children, not including disabled, are ineligible because of death, marriage or attainment of age 18, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age. A surviving spouse who remarries prior to attainment of age 55 would be disqualified for any future benefit payments.

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement

If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

C. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

8. DISABILITY BENEFIT

A participant with at least 8 years of service who becomes disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workmen's Compensation Act and the Workmen's Occupational Diseases Act.

9. REFUND OF CONTRIBUTIONS

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest.

If unmarried at retirement, a participant is entitled to a full refund of contributions for survivors' annuity. The refund may be repaid, with required interest, to qualify a spouse for survivors' benefits if the participant marries after retirement.

LEGISLATION

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1989, affecting the operation of the System.

SENATE BILL 1258

Numerous changes effected by this bill are as follows:

1. Amends certain acts to provide additional compensation amounts for specific leadership positions retroactive to January 11, 1989.
2. Allows the elected state executive officers to participate based on total compensation, effective January 1, 1990.
3. Allows participants who have elected to continue participation in the System following termination of service as a General Assembly member, or who are serving as Clerk or Assistant Clerk of the House, or Secretary or Assistant Secretary of the Senate to contribute based on compensation received or the salary of the highest salaried officer of the General Assembly, whichever is less.
4. Allows for full credit in the System upon transfer of any such credit from retirement systems defined in Articles 3 through 18 upon prescribed payment, but without payment for state funded cost provided application to transfer is made between January 1, 1990 through February 1, 1991. Information received from the transferring system must identify to the System those contributions which are to be considered as "employer picked up".

SENATE BILL 95

Numerous changes effected by this bill are as follows:

1. Eliminates from consideration as salary, any imputed income a participant might be receiving resulting from federal law, based on the value of group term life insurance provided by the state.
2. Provides for payment of any annuity for the whole calendar month in which death occurs.
3. Allows a member, who has elected not to participate, to withdraw such election prior to January 1, 1991 and make payment of contributions and interest required for back credit within three years following the date of becoming a participant.
4. Provides that, beginning January 1, 1990, the 3% automatic annual increases for participants who remain in service after attaining 20 years of creditable service shall begin to accrue on the January 1 next following the date upon which the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the automatic annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until the January 1 next following the first anniversary of retirement.
5. Provides that, beginning January 1, 1990, all automatic annuity increases shall be computed as a percentage of the total annuity payable at the time of the increase, including all previous increases.
6. Provides that, upon the death of a participant, the survivors' annuity to a qualified spouse would begin on the date of the participant's death. Upon the death of an annuitant, the benefit to a qualified surviving spouse would begin on the first of the month following death.
7. Provides that, the annuity to a qualified surviving spouse shall not be less than 100 percent of the retirement annuity earned by the member at death if he or she is survived by a dependent disabled child.
8. Provides that, beginning January 1, 1990, every survivors' annuity shall be increased on each January 1 on or after the first anniversary of the annuity by 3 percent of the current amount of the annuity including any previous increases.
9. Provides that, beginning January 1, 1990, the minimum survivors' annuity for any qualified survivor shall

be \$300 per month without regard to whether the deceased participant was in service on the effective date of this amendatory act of 1989.

10. Provides that, a person who would be eligible to receive a survivors' annuity, except for the fact that the person has not yet attained age 50, shall be eligible for a monthly distribution provided that payment of such distribution is required by federal law.
11. Provides that, if a deceased participant has not designated any refund beneficiary and no spouse nor children survive, the refund payment shall be made to the participant's estate.
12. Provides that, the state contributions to the System shall be increased incrementally over a seven year period to meet funding requirements specified.
13. Eliminates the requirements for an "Automatic Annuity Increase Reserve".
14. Removes the requirement that the oath of office taken by a trustee shall be taken before the Secretary of State.
15. Provides that, meetings of the board shall be held at least twice each year.
16. Requires the estimated appropriation requirements be submitted to the Governor on or before January 1, instead of November 1.
17. Provides that, cash accruing to the System not required for current expenditure shall be transferred to the ISBI for purposes of investment, but until such transfer is made, these funds shall be invested temporarily by the Treasurer on behalf of the System and the interest earned thereon shall be credited to the trust fund of the System.
18. Removes requirement of certification by the Actuary of the amount of each annuity to be granted by the board.
19. Clarifies that, all securities and property of the System and benefits payable under this article shall not be subject to judgement or other seizure by process, in bankruptcy or otherwise, and shall not be assignable. However, a person receiving an annuity, benefit, or refund may authorize withholding from such benefit in accordance with the provisions of the "State Salary and Annuity Withholding Act."

HOUSE BILL 332

Amends election to continue provision to include Articles 15 through 18 of the Illinois Pension Code as being among those retirement systems under which an otherwise qualified employee, being a former participant in the General Assembly Retirement System (GARS) having at least 6 years of credited service thereunder may elect continued participation in the GARS instead of participating in the other retirement system.

